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VOL. CLIII NO. 211 Thursday, October 27, 1988

Today

The Federal Reserve adopted new fee schedules that it expects will significantly widen the profit margin on services it provides to financial institutions. 2

Banks looking for ways to differentiate their cash management services should consider improving their invoices, said speakers and attendees at the National Corporate Cash Management Association's annual conference in Dallas. 2

At least a half dozen groups, including Visa International, MasterCard International, and the Consumer Bankers Association, have filed friend-of-the-court briefs in support of Citibank's effort to export late fees and other credit card penalties out of state. 2

Fed Chairman Alan Greenspan reiterated his concern over the increase in bank lending for leveraged buyouts and said Congress should review the tax incentives that favor higher leverage. 3

The Fed's financial resources should not be tapped to save the disintegrating thrift system, central bank Chairman Alan Greenspan stated in a letter recently released by the Senate Banking Committee. 15

Chase Manhattan booked a $31 million gain by taking an equity position in the leveraged buyout of Sterling Chemicals Inc. 12

First Nationwide Financial Corp. said real estate lending more than doubled in the third quarter but earnings plummeted about 93.5% to a mere $750,000. 12

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CONSUMER FINANCIAL SERVICES

Customers at refurbished branches of Citizens Fidelity Bank and Trust Co., Louisville, can buy certificates of deposit and conduct other transactions in privacy modules. Custom-designed workstations also allow the customer and banker to view the PC screen together. 6

More than 450 affiliates of PNC Financial Corp have installed a retail sales system, which typically includes workstations equipped with IBM personal computers and software to facilitate cross-selling. 6

Total Research Corp., Princeton, N.J., has developed a program that tracks the quality of service delivery at financial institutions and identifies areas that should receive priority in improvement efforts. 8

The time may have come for banks to consider getting out of the credit card game, writes Barry I. Deutsche in Marketing Management. 4

Due to weather problems, delivery of the Wednesday, Oct. 26 issue of the *American Banker* was delayed to readers in the Houston area. We apologize for any inconvenience.

Big Banks Expect Fed to Grant New Powers, but Fear Limits

By BARBARA A. REHM
Washington Bureau

WASHINGTON — Bankers stalking the Federal Reserve are confident of winning wider powers to underwrite securities, but they worry that Fed governors will bog down their approvals with new restrictions.

The Fed was flooded with applications this week as more banking companies boarded the bandwagon to gain expanded securities underwriting powers.

Citicorp, J.P. Morgan & Co., and Security Pacific Corp. joined Chase Manhattan Corp. and Bankers Trust Corp. in pursuit of new underwriting powers. Manufacturers Hanover Corp., Chemical Banking Corp., and Marine Midland Banks Inc. plan to submit applications in the next several weeks, according to spokesmen.

Individual powers are being requested in separate applications. This strategy, bank spokesmen explained, was adopted so that the more controversial items, such as plans to underwrite corporate equities, will not slow down Fed approval of corporate debt underwriting — the first new power the banks expect to receive.

"We anticipate that some of the applications will raise fewer questions than others," said Robert Tortoriello, a lawyer with Cleary, Gottlieb, Steen & Hamilton, New York, who represents Security Pacific. "Debt securities will move on the fastest track."

As reported earlier, Chase asked the Fed for authority to underwrite and deal in corporate debt and preferred stock. Bankers Trust added corporate equities to that list. Morgan requested the power to underwrite corporate

Please see BIG BANKS: Page 14 ▸

Bid for Options Exchange Revived

Units of Security Pacific and Citibank Apply to SEC

By JED HOROWITZ

NEW YORK — A year after Security Pacific Corp. abandoned a controversial plan to operate an options trading and clearing system, a group that includes a unit of the California company and a Citibank unit is embroiled in another fight to revive the plan.

The group consists of RMJ Securities Corp., a government securities broker once owned by Security Pacific; Security Pacific National Trust Co.; and Capital Markets Assurance Corp., a Citibank unit that issues financial guarantees on corporate securities.

The system, which goes by the name Delta Government Options Corp., has applied to register as a clearing agency with the Securities and Exchange Commission. The new company plans to issue options that will be traded over the system by primary dealers of government securities and other large traders.

Critics of the plan — the member-owned options exchanges and their clearing corporations — say the arrangement is a charade. They argue that Delta is a front for Security Pacific and RMJ, which are again trying to evade regulatory requirements by refusing to register with the SEC.

"It's really the Veg-O-Matic approach to regulatory oversight," said Mark Young, a Washington-based attorney representing the Chicago Board of Trade. "You slice and dice what ap-

Please see SECURITY: Page 10 ▸

Giant Thrift Moves to Exit FSLIC Fund

Great Western Bid to Join FDIC Will Face Obstacles

By ROBERT LUKE

LOS ANGELES — Great Western Financial Corp., the nation's second largest thrift company and one of the best capitalized, moved on Wednesday to have the deposits of its huge California thrift subsidiary insured by the Federal Deposit Insurance Corp.

The move, which faces legal, regulatory, and political hurdles, further jeopardizes the future of the ailing Federal Savings and Loan Insurance Corp. and calls into question the necessity of having a separate thrift industry, analysts said.

"This is, at minimum, a very important symbolic gesture," said Eric Hemel of First Boston Corp., New York.

Greenspan on FSLIC Aid: Page 15

Great Western, with assets of more than $31 billion, announced on Wednesday that it has filed applications to merge its principal subsidiary, Great Western Bank, into its Washington State subsidiary, Great Western Savings Bank, which last month converted to FDIC membership.

The Washington unit remains a member of the Federal Home Loan Bank System.

Great Western Bank, based in Beverly Hills, Calif., is the nation's third largest thrift, with assets of $28.1 billion at midyear. The institution is FSLIC insured and operates 263 branches in California, Florida, and Arizona.

The holding company, also based in Beverly Hills, said it made the move for economic reasons.

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Fed Adopts Fees Aimed at Wider Profit Margins

By JEFFREY KUTLER

NEW YORK — The Federal Reserve Board adopted new fee schedules on Wednesday that it expects will significantly widen the profit margin on services the Federal Reserve System provides to financial institutions.

Most of the increase in the profit margin — to 3.4% of anticipated 1989 revenue from 0.5% in 1988 — was arranged in June, when the Fed changed its prices on check collection services to conform to the check-hold rules known as Regulation CC. About three-fourths of the central banking system's costs and revenues from priced services come from the check collection area.

But in taking further pricing actions Wednesday, the Fed Board said it expected increases in revenue next year from four of five other service categories. In the one category where revenue would fall — safekeeping and noncash collections — the profit margin would improve to a 0.8% loss in 1989 from a 2.7% loss this year.

When all the pricing changes in six service categories are added together, the Fed projects a 6.6% increase in revenue for 1989 to $707.8 million. The percentage increase is three times the 2.2% that the Fed projects it will register in 1988.

Costs are seen rising at a slower rate than gross income — 3.7% to $684.9 million in 1989. Costs increased 5.3% in 1988.

The costs include a "private sector adjustment factor," which is designed to make the Fed's overhead comparable to that of its private-sector competitors. The Fed also plans to spend $4.3 million on research and development projects in 1989, up from $2.3 million in 1988 — figures that were not incorporated in profit estimates prepared by the staff for presentation at the Wednesday board meeting.

The Fed's profit — revenue minus cost — would grow to $24.9 million in 1989 from $3.3 million in 1988. Although that is a whopping 755% increase, it brings the income figure closer in line with Fed performance in earlier years. In 1987, for example, revenue exceeded costs by $22.4 million, in 1986 by $28.4 million. And the profit margins, in percentage terms, were higher in proportion to total revenue.

Service Prices Mandated by Law

The Fed offers payment and processing services on a priced basis as mandated by the Monetary Control Act of 1980. Profits from these services are a small fraction of what the central bank earns from other aspects of its operations as a fiscal agent of the U.S. government. The central bank contributed $17.7 billion in profits to the Treasury last year, most of it interest income on U.S. government securities.

The Monetary Control Act specifies that the Fed must recover its overhead costs, including the private sector adjustment factor. The Fed measures its success in terms of a "cost recovery rate." If revenue matches costs, which is the goal, the recovery rate is stated as 100%. The Fed staff said that "since 1984 [when the rate was 107.8%], the system has made substantial progress in moving closer to its target of 100% recovery."

The recovery rate anticipated for 1989, 103.4%, can also be expressed as a 3.4% profit margin.

In the commercial check field, where the Fed earns most of its service

Please see FED: Page 11 ▸

Top 25 Bank Firms After 3d Quarter

Compiled by American Banker
Ranked by assets (billions of dollars)

Rank 9/88	Rank 12/87		Assets 9/30/88	Assets 12/31/87
1	1	Citicorp	$209.2	$203.6
2	2	Chase Manhattan Corp.	97.4	99.1
3	3	BankAmerica Corp.	95.2	92.8
4	5	J.P. Morgan & Co.	82.1	75.4
5	7	Security Pacific Corp.	78.9	72.8
6	6	Manufacturers Hanover Corp.	74.0	78.3
7	4	Chemical Banking Corp.	69.8	78.2
8	9	First Interstate Bancorp	58.0	50.9
9	8	Bankers Trust New York Corp.	57.9	56.5
10	10	First Chicago Corp.	45.2	44.2
11	11	Wells Fargo & Co.	44.7	44.2
12	15	PNC Financial Corp	37.8	31.4
13	12	Bank of Boston Corp.	34.2	34.1
14	14	Continental Illinois Corp.	32.1	32.4
15	17	Bank of New England Corp.	31.0	29.5
16	16	Mellon Bank Corp.	30.8	30.5
17	37	First Fidelity Bancorp.	29.9	16.2
18	18	NCNB Corp.	28.6	28.9
19	20	SunTrust Banks Inc.	28.2	27.2
20	19	First Union Corp.	28.0	27.6
21	47	Shawmut National Corp.	26.7	10.8
22	22	Marine Midland Banks Inc.	26.6	25.5
23	21	First Bank System Inc.	26.3	26.8
24	24	Irving Bank Corp.	25.6	23.5
25	23	Fleet/Norstar Financial Group Inc.	25.5	24.5

Treasurers Take Banks to Task

Clearer Invoices Sought by Cash Management Group

By YVETTE D. KANTROW

DALLAS — Banks looking for new ways to differentiate themselves in the cash management arena may want to consider improving the invoices they send their customers. This sentiment was expressed here this week by attendees of the National Corporate Cash Management Association's annual conference.

Cash Management

"There appears to be an opportunity here for banks to make a lot of people happy" by electronically transmitting detailed and comprehensible invoices to their corporate customers, said George Rush, of Phoenix-Hecht, a treasury management consulting firm in Northfield, Ill.

Mr. Rush told a standing-room-only crowd of treasurers on Tuesday to insist that their banks provide clear and timely account-analysis statements.

"Don't underestimate your own corporate power," he said. "Talk to your bank."

While many banks provide their customers with account-analysis statements, these are problematic for treasurers, Mr. Rush said. The most common complaint, he said, concerns the lack of consistency in terminology and formats from bank to bank. This makes it hard for treasurers to review exactly what they are being charged for.

But when treasurers do carefully examine their statements, they often discover errors in favor of their banks, Mr. Rush said.

Mr. Rush's statement hit many nerves in his audience of corporate treasurers. Attendees volunteered to relate stories about the bank errors they have discovered in their invoices.

"Our bank initiated some new services that they never mentioned charging us for," one attendee said. "After looking at our statements, we realized we were being charged $50 a month for that new service."

The corporations are also unhappy that some banks offer statements only on paper, rather than in electronic form. Paper invoices often arrive late, and treasurers find it difficult to reconcile the statements with internal records, he said.

Many of the corporations' complaints about bank invoices are valid, said Michael Curran, a vice president at Manufacturers Hanover Trust Co., New York. Bank invoices can be cumbersome and hard to understand, he said. But, he added, there is no easy solution.

"It's like balance reporting all over again," Mr. Curran said in an interview at the conference. Corporations wanted to receive electronic balance information from all of their banks, but complained when the information did not come in uniform formats.

Change Is Costly

It is costly for all banks to change their invoicing software to adhere to a common standard, Mr. Curran said. And that cost would eventually be passed on to a bank's customers.

Errors in a bank's favor, Mr. Curran said, are most likely offset by other errors made in a corporation's favor.

Mr. Rush urged corporations to build their own systems to help them analyze their bank invoices. Corporations may want to apply the National Corporate Cash Management Association's account-analysis standard to these systems, or they may develop their own formats. Either way, understanding the elements of a bank invoice can be a powerful tool for corporations when they renegotiate their bank relationships.

"Bank pricing is negotiable — it's very negotiable," Mr. Rush said. "And knowledge gives you negotiating power." ■

Correction

The Institute for International Economics is a private, nonpartisan research center organized for the study and discussion of international economic policy. It is supported by a number of private foundations. A Sept. 15 story ("Economist Urges More Debt Relief Deals," page 2) incorrectly identified the organization. ■

Citibank, Iowa Gather Support In Court Tests

By A. JOSEPH NEWMAN JR.

Friends of the court are beginning to choose sides in the court battle that pits Citibank (South Dakota) NA, of Sioux Falls, a unit of New York's Citicorp, against the Iowa attorney general in two cases testing the power of banks to export late fees and other credit card penalties beyond state lines.

Iowa is not challenging the bank's right to export home-state interest rates. That right has been upheld by the U.S. Supreme Court in 1978.

Since that decision did not mention fees and other charges, Iowa sued Citibank (South Dakota). Iowa claims that 10 fees for late payments and for paying bills with checks drawn on insufficient funds violated Iowa consumer-protection laws.

Citibank and others say such fees and charges are an integral part of the total interest rate structure.

So far, at least a half dozen friend-of-the-court briefs have been filed in support of the Citibank argument. They came from Visa International, MasterCard International, the Consumer Bankers Association, the Delaware Bankers Association, the Delaware banking commissioner, and the state of South Dakota.

Iowa expects up to six such briefs in its own favor, according to Peter Kochenburger, an attorney in the Consumer Protection Division of the Iowa Justice Department.

Among these briefs are a filing by the state of South Carolina, on behalf of its Department of Consumer Affairs, and a filing by the Association of Uniform Consumer Credit Code States. Steven W. Hamm, administrator of the South Carolina consumer affairs department, is president of the association.

Much Riding on Outcome

The two states filing briefs in behalf of Citibank — Delaware and South Dakota — have much at stake on the outcome of the litigation. Both have worked to attract out-of-state banks to set up units to issue credit cards and export rates and fees to consumers elsewhere, according to Francis X. Morris, executive vice president of the Delaware trade association.

Legislatures in Delaware and South Dakota, seeking to deflect suits like Iowa's, enacted laws earlier this year specifically defining credit card fees as part of the interest rate. Banking lawyers said they expect the dispute to be appealed to the U.S. Supreme Court, no matter which side prevails in the lower courts.

The question is: Do states or the federal government define interest rates? The briefs supporting Citibank were filed in federal court in Des Moines, where Citibank (South Dakota) is suing the Iowa attorney general, Thomas J. Miller.

Oral arguments are expected early next year, according to Mr. Kochenburger. Iowa originally sued Citibank in state court in Des Moines, and that case is also in litigation.

Similar litigation is pending in state and federal courts in Des Moines against United Missouri Bank of Kansas City and United Missouri Bank USA of Delaware, both units of United Missouri Bancshares Inc., Kansas City.

Iowa had also filed a fee-export suit against a Delaware company, the First National Bank of Wilmington unit of Commercial Credit Co. That suit was settled out of court. ■

MARKETING MANAGEMENT /COMMENTARY

It May Be Time to Quit the Credit Card Wars

By BARRY I. DEUTSCHE

NOT long ago, I got a letter from Jerome Silverbush, whom I haven't seen since we sat next to each other at P.S. 128, which is a Brooklyn-based institution of less than higher learning. The letter told me that I was now eligible for a brand-new Visa card, and if I sent for it the P.S. 128 Alumni Fund would benefit.

This letter was a milestone of sorts for me. Now I have received a credit card offer from every group that I remember being a part of, every airline I've ever flown on, and every religious, political, or special interest organization with which I've ever had a moment of sympathy.

Jerry's letter also told me that the P.S. 128 card is sponsored by a bank I'll dub First National Neighbors Bank. First Neighbors happens to be my bank, so I filled in the application and took it down to my local branch on my next visit.

I took it to the desk that was labeled Personal Banking Counselor. The counselor stood up, said hello, called me by as close an approximation of my name as he could manage, and offered me a seat. He looked at the application and said, "Gee, we don't handle these. You have to mail them in."

Deutsche Says:

'The card companies are keeping a lot of smaller players in a game in which there is no large-scale payoff available.'

"Why?" I asked. "It has your bank's name on it. This is an office of the bank, isn't it?"

"Well, you see, the credit card people are in Delaware, and we're not allowed to handle their stuff. And anyway, it's really not our card. Large City National issues it for us. We don't even take payments; you have to mail those in, too."

What this suggests is that the credit card business isn't what it used to be. It may have outpaced the ability of most banks to compete in it effectively or to manage it well. It even may be that it isn't necessary for your bank to include credit cards in its product line anymore.

The effects of advances in technology and in national marketing have created both economies of scale and, for a few, sustainable competitive advantage. Citibank's volume is now more than twice that of its nearest competitor, Chase, and among the restthe formation of an oligopoly is accelerating.

I don't know what share of the affinity card business belongs to MNBA, Maryland National Bank's credit card company, but I know it's considerable. And it is commonly believed that all the good groups are now taken.

Costly Game of Catch-Up

What the domination of the few means for the many is a costly, risky, time-consuming process of catching up, with little real chance for success.

The business is not what it used to be in many other ways. Credit cards are now operated and marketed so as to not only *not* enhance a banking relationship, but in fact to be adverse to the relationship.

I've often wondered what would happen if, in a fit of zealous affinity, I applied for 15 cards issued by MBNA in order to support 15 organization, earn mileage credit, or whatever. Would I get one acceptance and 14 refusals? Would they negotiate a single credit limit and divide it among the 15 cards? Is the number 15 or is it much greater?

Lately, I'm leaning toward the opinion that it just may be that your bank would do well to leave the credit card field to those better able to cope with its complications. In the overall scheme of things, credit cards may not matter.

That view depends partially on the further thought that most consumers are not particularly loyal, or are overly conscious of the bank name on their credit cards.

In fact, these days the bank name is likely to be hard to find, sometimes relegated to the fine print on the back of the card. On the front is always a Visa or MasterCard symbol and, increasingly, the name and artwork of a third-party sponsoring organization.

National marketing strategies have played a major role in breeding even wider gaps between the haves and the have-nots. We do business with names we know. The big marketing bucks, and with them the familiarity that is essential to sales, belong to the big players — Visa and MasterCard.

It's not First Neighbor's Visa you were told to take to the Olympics or First Granary's MasterCard that's going to give you clout or choice or whatever it gives these days. Citibank may be an exception, since it is in so many other realms of endeavor. But even despite Citibank's prominent advertising, Visa and MasterCard recognize no first names, and the only surname they ever use is Gold.

As if scale and reach weren't enough to create a problem for the small players, a new geography game has been devised to further complicate their lives. Many of the banks large enough to enter the lists have also moved their card operations away from their home base — usually to another state in search of a higher rate — and most are now issuing cards well beyond the normal reach of their traditional retail banking operation.

The affinity card has helped with this and so has the public's indifference as to which bank issues the card.

Good-Bye to the Good Old Days

In the old days, credit card competition was a natural extension of bank competition. Banks chose one side or the other. BankAmericard or Master Charge, as they were known in the early days, and championed the side in their local markets. In some markets, Pittsburgh for example, the marketing battles were epic.

The battlefield shifted when the dual issuance arose, and except for those few banks where the credit card executive had stronger than average old-boy network ties to one or the other of the national brands, everyone began offering both. The competitive differences between brands of credit card became meaningless and so did the card's usefulness in terms of local competition.

By that time, however, the two card groups, formerly not much more than industry associations, had become entities unto themselves, complete with high-profile chief executives, generous national marketing budgets, and staff levels to match. They could not let their brands die.

The card companies are keeping a lot of smaller players in a game in which there is no large-scale payoff available. Their primary strategy is fear — they have jointly created the *betes noires* of Optima and Discover and convinced us bankers that only the issuance of our own credit cards will save us from Sears and American Express.

Don't think it's a day at the beach for the larger players, by the way. There are burdens that accompany scale. Size breeds impersonality and discourages concern for the individual customer. Distance creates barriers that work against an ability to intercede on behalf of a valued customer. And for some, the problem is exacerbated when the processing center not only is in another state, but belongs to another bank.

As well-funded direct-marketing campaigns continue to affect the outcome, more banks are realizing they cannot operate profitably while the size advantages are held by a few. But because of the fear that if they don't offer the service they will lose customers, they sign up to distribute another bank's credit card.

Some banks have been doing this from the beginning, but more and

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Mr. Deutsche is executive vice president of BankAtlantic, Fort Lauderdale, Fla., a federal savings bank.

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FLASHBACKS

What made news in the *American Banker* this week...

40 Years Ago

• J. Melville Broughton, a Senate candidate, former governor of North Carolina, and a director of the Wachovia Bank and Trust Co., told the closing session of the Consumer Bankers Association that bankers must face the future with hope and confidence because banking is based on faith and credit. Citing the "pessimism and cynicism over the world, which sees only another world war and destruction of everything," Mr. Broughton said he believed that "somehow, in the providence of God, we are not going to have a third world war, but instead, a new world in which the instruments of destruction will be sources of hope and abundance for everyone, and the light of a new day."

• G. Rowland Collins, dean of the graduate school of business administration at New York University, cited in a speech to members of the banking industry several "pestilent notions" that he claimed were undermining the U.S. economy. One of them, the 40-hour work week, "was born out of a Depression psychology and a desire to spread work," he said. "There has been, and is, a very real question whether the domestic economy can be maintained on 40 hours of work per week."

20 Years Ago

• For the first time since 1965, the number of banks in the United States increased. At the end of June, there were 14,242 banks, 12 more than at yearend 1967, reversing the trend that had begun at yearend 1965 when there were 14,273 banks in the country.

• Chemical Bank New York Trust Co. said it would form a one-bank holding company, list the shares on the New York Stock Exchange, rename itself Chemical Bank, and retain its state charter "for the time being."

10 Years Ago

• The federal government announced a program to provide minority-owned banks with assistance in development and capital support, Comptroller of the Currency John G. Heimann told the National Bankers Association. Stating that the survival of some minority banks might be at stake, Mr. Heimann said the program would be funded over a three- to five-year period through the Small Business Administration.

5 Years Ago

• The Federal Home Loan Bank Board approved extensive changes in the focus and timing of thrift financial reports. The approved regulation shifted the emphasis of the reports to providing information on interest rates paid and received by thrifts, and away from credit risk.

• High-level disagreement over how to streamline the financial regulatory system was jeopardizing the progress of a White House task force, headed by Vice President George Bush, that was studying possible changes. Most agencies were unhappy and some entirely unwilling to relinquish existing regulatory powers, sources said.

1 Year Ago

• BankAmerica Corp. posted its first operating profit in five consecutive quarters — $54 million, or 25 cents a share.

• A man who apparently suffered heavy losses in the stock market crash walked into a Merrill Lynch & Co. office in Miami and opened fire, killing a vice president and wounding another before he killed himself.

• The Senate Banking Committee planned to ask to Comptroller of the Currency for information on First Options of Chicago Inc., a subsidiary of Continental Illinois National Bank and Trust Company of Chicago that needed a loan from Continental Illinois Corp. during the stock market crash. The corporation's funding was of concern to opponents of new bank powers.

— Domenica Trevor

Fed Adopts New Service Fees Aimed at Widening Profit Margins

▸ Continued from Page 2

profits, it also expects the highest recovery rate in 1989 — 104%.

In its report to the Board of Governors, the Fed staff cautioned that the wide profit margin should not be accepted literally.

"The 1989 recovery rate may be optimistic because costs for check services may be higher than anticipated as a result of the impact of the Expedited Funds Availability Act and Regulation CC on reserve bank operations," the report said.

Special-project expenses alone, which are aimed at having "a major beneficial effect on the payments mechanism," would reduce the overall recovery rate to 102.3% in 1989, the Fed said. This would compare with 100.2% if calculated on the same basis for this year.

On the other hand, automated clearing house volumes rose 29% in the first eight months of 1988, compared with the 24% that the Fed budgeted for, which could make revenue projections in this area seem conservative.

Despite the projected bottom-line improvements, the Fed characterized its pricing changes for 1989 as minor. Fees are being increased most for labor-intensive services, to encourage automation.

For example, the Fed will impose a fee of $1 for notifications of change on automated clearing house items, but only when those notifications are submitted on paper. Meanwhile, surcharges are being reduced on some items transmitted during the automated clearing house night cycle.

In wire transfers, the Fed will increase the fee for telephone advices to $4 from $3.50, while the basic charge to originate or receive a payment will rise three cents to 50 cents.

Federal Reserve Prices and Profits

1988 and 1989 estimates, before special-project costs (dollar amounts in millions)

Service Category	1988 Cost	1988 Revenue	1988 Profit Margin[1]	1989 Cost	1989 Revenue	1989 Profit Margin[1]
Automated clearing house	$42.2	$41.9	(0.8%)	$46.9	$47.1	0.5%
Book-entry securities	9.1	8.8	(3.4%)	9.7	9.9	2.5%
Cash	14.1	14.4	2.0%	14.5	14.7	1.7%
Commercial check	506.5	512.4	1.2%	522.1	543.1	4.0%
Funds transfer and settlement	70.0	68.2	(2.5%)	74.0	75.3	1.8%
Safekeeping, noncash collection	18.8	18.3	(2.7%)	17.8	17.7	(0.8%)
Total[2]	**$660.7**	**$664.0**	**0.5%**	**$684.9**	**$707.8**	**3.4%**

[1]Percentage of revenue in excess (deficit) of cost
[2]Figures may not add up due to rounding

Source: Federal Reserve Board

The Fed anticipates a decline in revenue and transaction volume in its definitive safekeeping and noncash collection business despite some of its most aggressive price increases. Volume of book-entry securities, on the other hand, is expected to rise 8.3%, producing a 102.5% recovery rate in 1989 compared with 96.6% this year. ■

ABA Subcommittee Is Designated to Represent Bond Trustees

By LYNN STEVENS
The Bond Buyer

WASHINGTON — A subcommittee of the American Bankers Association has won the endorsement of municipal bond trustees to represent them nationally, with top priority being the development of industry standards.

About 20 ABA officials and trustees agreed here last week that the ABA's corporate trust subcommittee should represent the municipal trustees to address growing concerns about the adequacy of bond trustee protection for investors.

Trustees from western regional groups had pushed the idea of forming a new association to represent them. But they were persuaded by ABA officials to rely on its existing corporate trust subcommittee, which the ABA said has been addressing such issues.

The development of industry standards, which would serve as voluntary guidelines for trustees' day-to-day operations, was one of three recommended goals for the subcommittee, participants at the meeting said.

The other recommendations were to improve communication among trustee groups and increase education and training of trustees.

The subcommittee plans to seek approval of the recommendations when its parent committee, the fiduciary and securities operations division executive committee, meets here Nov. 16-18.

The recommendation to develop industry standards comes as industry groups, such as the Bond Investors Association, have proposed legislation that would require trustees to develop uniform standards. The legislation would require trustees to warn investors and potential investors whenever an issuer fails to make a payment to the bond's reserve or escrow fund.

Bond trustees have come under increased scrutiny ever since the Washington Public Power Supply System bonds defaulted, creating financial losses for thousands of investors. The default and subsequent litigation raised questions about whether trustees should be required to notify investors of an impending default or help recover funds for bondholders after a bond default.

"There was a consensus that the issue of industry standards is important and one that should be given serious consideration," said Ed McCartney, vice president and manager of the corporate trust services division of the First National Bank of Chicago. Mr. McCartney is also chairman of the ABA's fiduciary and securities committee.

"But what those standards will be, how extensive and detailed they will be, has yet to be determined," he added.

The trustees urged the subcommittee to develop a corporate trust network with about 17 regional trust groups that have been formed over the past few years.

"We'd like to tie the American Bankers Association's activities more closely to these organizations," Mr. McCartney said. "We'd like to consider having the regional groups undertake projects with the American Bankers Association acting as coordinator.

"One possibility would be to designate certain regional groups to draft certain portions of the industry standards."

Mr. McCartney added that the subcommittee could improve education of trustees by making available an existing corporate trust textbook, and trustees' training could be improved through the use of videotapes. ■

Dr. James Tobin to Get Award for Forecasting

NEW YORK — Dr. James Tobin, 1981 Nobel Prize recipient in Economic Science, will present Sterling National Bank & Trust Company of New York's annual economic forecasting award on Nov. 15.

The winner, to be announced on that date, will present economic predictions for 1989.

The award was established in 1981 in honor of Sterling National's chairman, Theodore H. Silbert. It recognizes outstanding achievement in economic forecasting and encourages greater accuracy, professionalism, and timeliness in financial and economic forecasting.

Dr. Tobin is the John W. Sterling Professor of Economics at Yale University. He has been on the Yale faculty since 1950. ■

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